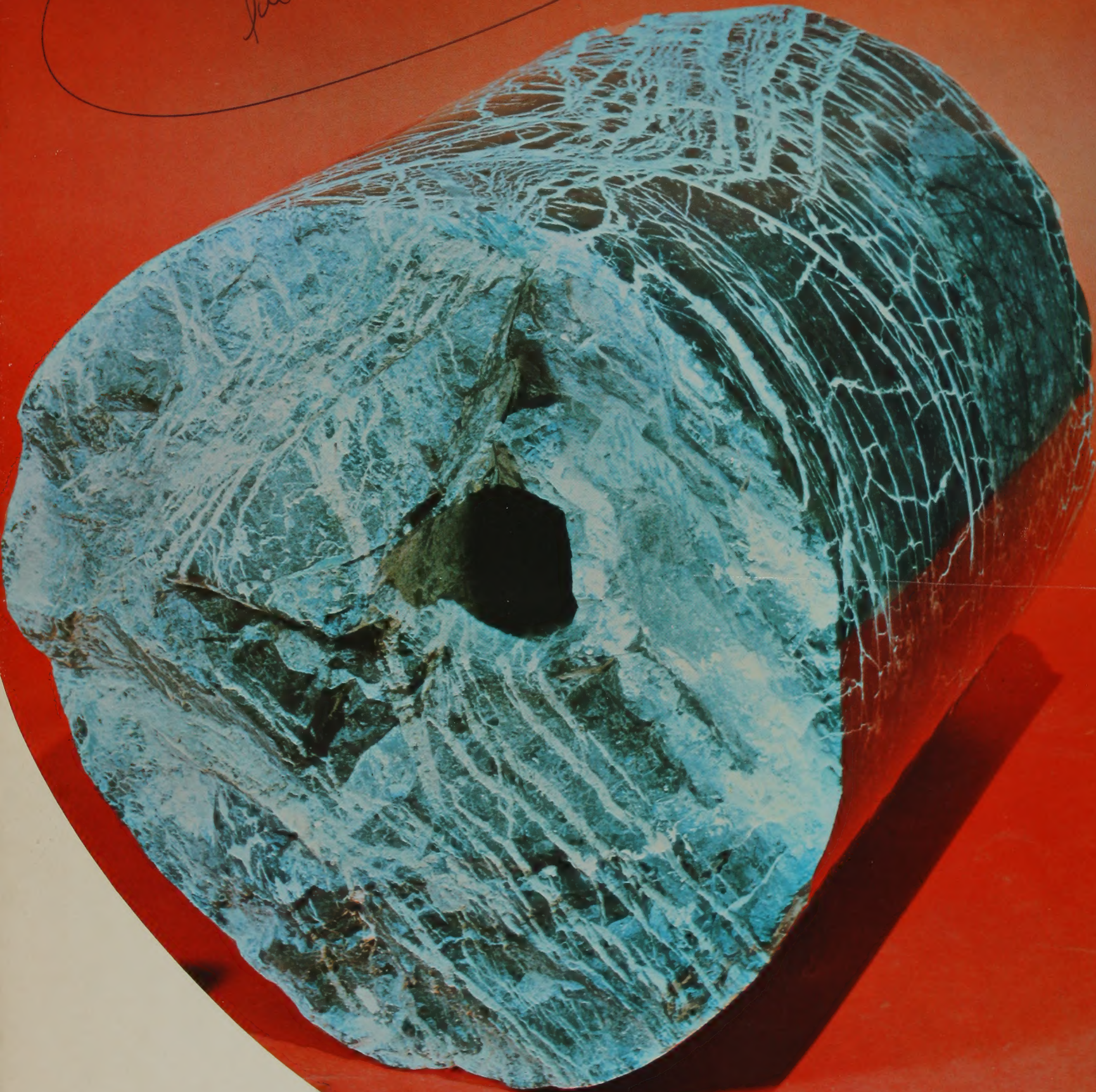


AR15

Pacific Asbestos Limited Annual Report 1970

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Front cover A section of 12 inch drill core taken from the Besly Pit on the Woodsreef asbestos site where the asbestos mill is scheduled for completion by the end of 1971.

Over 2,000 feet of core similar to this was shipped to Canada for mill testing at the Government of Quebec Pilot Plant.

Pacific Asbestos Limited

1970 Annual Report

Head Office: 5112 Third Street South East, Calgary, Alberta
Telephone (403) 255-1960; Telex 038-24700

Eastern Office: 2532 Wharton Glen Avenue, Mississauga, Ontario
Telephone (416) 270-3651; Telex 029-6274

Transfer Agents and Registrar: Guaranty Trust Co. of Canada

Stock Listed: Vancouver Stock Exchange

Solicitors: Thomson, Rogers

Auditors: Riddell, Stead & Co.

Consultants: Watts, Griffis & McOuat, Toronto, Sydney and Perth:
Geologists

Robinson, Perrin & Associates Ltd., Toronto and
Sydney: Project Managers

Surveyor, Nenniger & Chenevert, Inc., Montreal:
Engineers

H. C. Jessen
P. J. Wisner Asbestos Consultants

A. Bauer & Associates, Kingston: Pit Slope Design

Bankers: Toronto Dominion Bank

Annual Meeting: Monday, November 30, 1970, 3:30 p.m.
Ontario Room, Royal York Hotel, Toronto

ABOUT PACIFIC ASBESTOS LIMITED

Pacific Asbestos Limited is an Alberta company with its shares listed on the Vancouver Stock Exchange. The Company carries on mining development and exploration activities in Australia through Woodsreef Mines Limited.

Woodsreef Mines Limited is an Australian public company with its shares listed on various Australian stock exchanges.

Pacific Asbestos Limited owns approximately 59% of the issued shares of Woodsreef Mines Limited, and Woodsreef Mines Limited in turn owns all of the issued shares of the following subsidiaries:

Chrysotile Corporation of Australia, Pty. Limited

This company is constructing a mill and production facilities to bring the Woodsreef asbestos property to production. It is scheduled for completion by the end of 1971.

The property contains 27 million tons of asbestos ore that are drill proven with an estimated gross value of \$200 million and a potential reserve of 90 million tons of ore, according to Watts, Griffis & McOuat Limited. Core sampling indicated asbestos grades primarily 4, 5, 6 and 7.

The plant will have an initial capability of 70,000 tons of asbestos fibre a year.

Robinson, Perrin and Associates Ltd. of Toronto has been retained to provide project management services for the company. Senior staff of Robinson, Perrin and Associates Ltd. have extensive experience in the supervision of the engineering and construction phases of other large projects. Detailed engineering design of the mill and supporting facilities is being done by Surveyer, Nenniger and Chenevert Inc. of Montreal.

Final mine planning and mine equipment selection and purchase is being carried out by Watts, Griffis and McOuat Ltd.

Clearing of the plant site and pouring of foundations has started. It is intended that full scale production will be achieved in early 1972 and this schedule is being maintained.

An agreement is in the final stages of completion with Marubeni-Iida Co. Ltd. of Tokyo for the sale of 200,000 short tons of chrysotile fibre over a 5 year period from the Woodsreef asbestos property.

Bowlake Nickel & Gold Pty. Limited

This company is a former subsidiary of Bamboo Creek Gold Mines Limited.

Bowlake owns or has under option, mining tenements covering a significant portion of the Bamboo Creek gold area and has negotiated a 50 percent beneficial interest in two Temporary Reserves covering approximately 305 square miles, all within an area approximately 100 miles east-southeast of Port Nedland, Western Australia.

A limited program of field exploration and diamond drilling was carried out in late 1969 at Bamboo Creek. The most significant result coming from this program was the discovery of nickel arsenosulphide in drilling, south of previously mined gold veins.

In 1970, the program at Bamboo Creek has been continued with photogeological work being done, an integrated airborne geophysical survey carried out and further diamond drilling. Drilling results in the zone being tested for nickel mineralization have not been encouraging.

The continuation of gold mineralization to greater depths, in known gold zones, has been confirmed. However, the economics of mining narrow gold veins at Bamboo Creek is not considered favourable at present gold prices.

The two Temporary Reserves were, during the 1970 field season, covered by a combined airborne magnetometer, electromagnetic and radiometric survey. Photogeological maps were prepared from colour photos and helicopter supported ground checking was used to confirm the photo interpretation.

This preliminary geological work has shown a number of areas of interest on both reserves and a follow-up program in greater detail will be carried out next field season.

Yulgilbar Exploration Limited

This company has been granted or has made application for various mining and prospecting rights over an area totalling 36,231 acres in the north-eastern part of New South Wales. No systematic exploration has been carried out in this area.

Old workings for copper and antimony have been noted. Mining for mercury has been relatively extensive. A serpentinite belt extends throughout the length of the area and asbestos fibre occurrences have been noted in selected areas. Also in the serpentinite belt is a chromite deposit that was worked up until 1945.

Recent exploration by the company over the ground covered by the various mining tenures has been of a reconnaissance nature with more detailed work to be done in some areas.

Detailed work will begin in November, 1970. An exploration camp designed to accommodate 10 men is now on site and water and power facilities are being connected. The exploration program to be carried out by Watts, Griffis and McOuat (Australia) Pty. Limited will be conducted in two parts:

1. A reconnaissance survey of the ultrabasic areas incorporating a geochemical stream sediment sampling program along with a detailed investigation of the areas of known asbestos occurrence will make up the first part. This investigation will include trenching and magnetic surveys.

2. The second part of the exploration program will comprise a detailed investigation of the most prominent mercury occurrence. This investigation will involve extensive soil sampling, surface mapping and trenching which will be followed by percussion or diamond drilling as circumstances dictate.

PRESIDENT'S MESSAGE

On behalf of the Board of Directors, I am pleased to submit the Annual Report and audited Consolidated Financial Statement for the year ended May 31, 1970.

During the year our primary objective was to secure satisfactory financing so that we might bring our Woodsreef asbestos property near Barraba in New South Wales, Australia, to production.

This was done by means of an offering to the Australian public on an all equity basis through the medium of an Australian subsidiary company, Woodsreef Mines Limited. The underwriting which was successfully concluded by R. F. Arthur and Company of Sydney, Australia and raised approximately \$20.4 million Canadian. This together with an estimated \$1,000,000 of interest provide the funds required to undertake our various commitments in Australia.

It should be directed to the attention of our shareholders that it was not the intent of your board to undertake the financing on an "all equity" basis. However, the depressed money markets prejudiced our ability to secure loan funds without paying high premiums in terms of a free bonus equity position and rather than submit to onerous terms we determined to follow the all equity approach. This decision will make it possible to move more rapidly into a dividend situation as well as making it possible to participate in other mining ventures of merit.

The shareholders have previously been informed of a letter of intent which had been concluded many months ago with Marubeni-lida of Japan providing for sale of asbestos fibre in grades 4, 5, 6 and 7. We are pleased to report that following a visit to Japan on October 29th and 30, 1970 agreement has been reached on all provisions of the formal contract and it is expected that it will be executed at the time of our annual meeting or very shortly thereafter. In addition, to providing for the firm purchase of 200,000 tons of asbestos fibre during the five year period commencing January 1972, Marubeni will also undertake to make available the sum of up to \$1,000,000 (Australian) for overrun money in the event the capital costs of construction exceed the \$15,300,000 (Aust.)

Further exploration activities have been taking place on mining properties to which we have mining titles through ownership of Bowlake Nickel & Gold Pty. Ltd., the results of which will be reported by our consultants, Messrs. Watts, Griffis & McQuat as soon as assay results are complete.

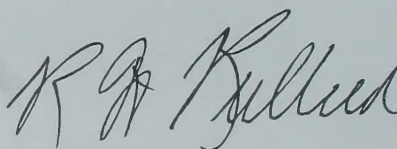
The two temporary reserves comprising some 320 square miles in which our company has a fifty percent holding are located in the Pilbara Region of Western Australia, are areas of geological interest. Preliminary negotiations are underway with an international mining company for the exploration of these reserves but it must be recognized that if an agreement is concluded it has no significance beyond the fact that a long term exploration program will commence.

An exploration program has also been commenced on the 35,000 acre block near Yulgilbar, New South Wales. The program which is designed for initial exploration work only will take approximately fifteen months at an estimated cost of \$300,000 (Australian). Particular emphasis will be given to the exploration of known occurrences of chrysotile asbestos and cinnabar. The mining titles are the property of Yulgilbar Exploration Limited, a wholly owned subsidiary of Woodsreef Mines Limited.

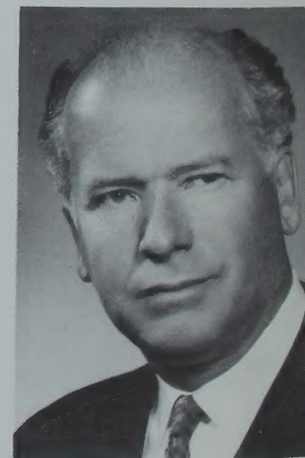
I believe you will be interested in how the asbestos property will be mined. For this reason a chart has been included indicating this in the report.

It is considered that this has been a year of achievement for the company and construction of our asbestos mill and mining complex is now underway. A preliminary appraisal of Capital Costs would indicate that we will be very close to estimated costs and it is apparent that world conditions in the industry will be favorable at the time our plant commences operation.

Asbestos is of increasing importance in the world and we feel that because of our geographic position as the only commercial chrysotile asbestos mine in Australia that we can make a significant impact on the market which centres in the area of Japan and Australia to the benefit of both our companies and the area we serve.

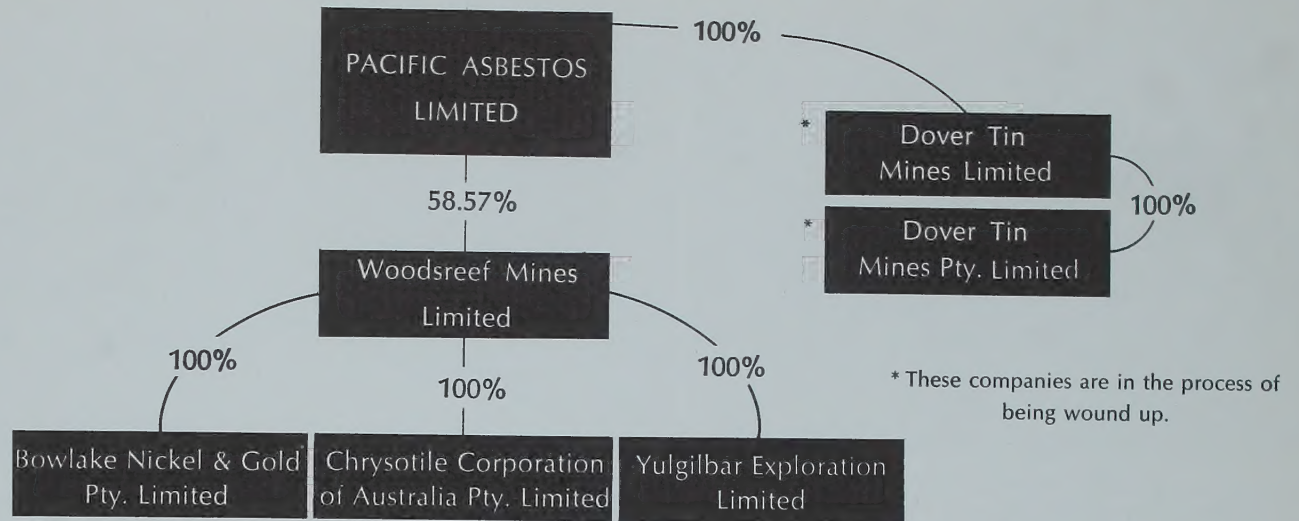


Russel H. Bullied,
President
November 6, 1970



R. H. BULLIED
(Calgary)
President and Director

PACIFIC ASBESTOS FAMILY TREE



As of November 1st, 1970, the following were the Directors of Pacific Asbestos Limited, all of whom have agreed to stand for re-election:

K. R. BESLY
(Toronto)

Executive; Chairman of The Board of Chrysotile Corporation of Australia Pty. Limited; Chairman of the Board, Yulgilbar Exploration Limited

J. H. BLACK
(Toronto)

Executive; General Manager, Ribot Investments Limited; Vice President, Kamoro Construction Limited

L. DAYUS
(Toronto)

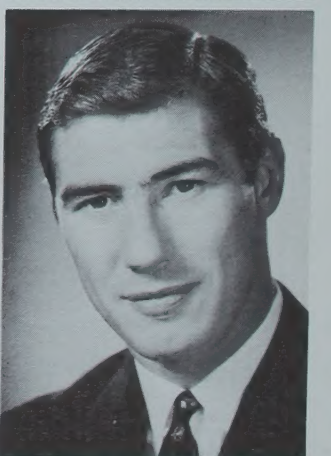
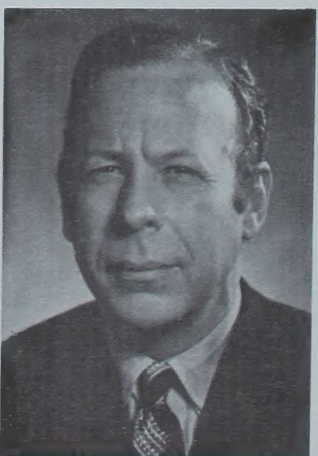
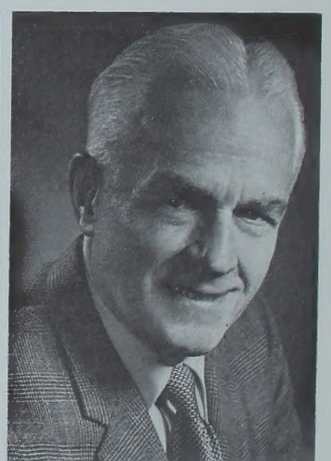
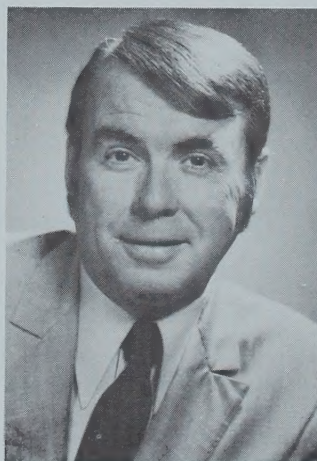
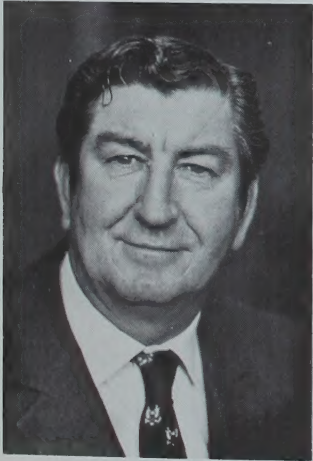
Executive; President of Air Balance of Canada Manufacturing Limited and responsible for Eastern Office of Pacific Asbestos opened in September, 1970

H. T. R. GREGG, Q.C.
(Calgary)

Barrister and Solicitor; Director Farmers and Merchants Trust Co. Ltd.

A. J. HAMMOND
(Ottawa)

Executive; President, Lanark Wood Products Limited; President, Rowleys Holdings Limited



S. HANEN
(Calgary)

Vice Chairman of the Board of Directors
Farmer, Executive; Chairman of the Board, Farmers and Merchants Trust Co. Ltd.; Director, Dominion Hotel, Kingsway Motor Hotel, Beacon Hotel and Wales Hotel

S. KAHANOFF
(Calgary)

Executive; President, Voyager Petroleum Ltd.

S. P. KING
(Calgary)

Executive; President, S. P. King Consultants Limited; Asamera Oil Corporation Ltd.

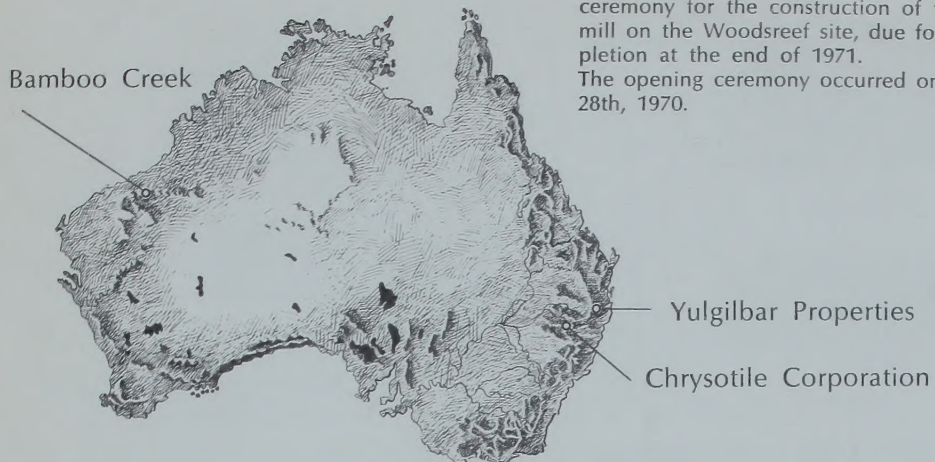
R. W. MACAULAY, Q.C.
(Toronto)

Chairman of the Board of Directors
Barrister and Solicitor

R. J. PULFORD
(Toronto)

Professional Athlete

Bamboo Creek



One thousand tons of asbestos bearing ore were exploded when the New South Wales Minister of Mines, the Hon. Wal Fife, pressed the trigger to mark the sod turning ceremony for the construction of the asbestos mill on the Woodsreef site, due for completion at the end of 1971. The opening ceremony occurred on September 28th, 1970.



Looking at Woodsreef "on the surface" it does not appear unduly marked. But from beneath the surface have come 53,000 feet of core from 100 drill holes and more than 2,000 feet from 12 inch diameter core drillings.

Now It Looks Like This



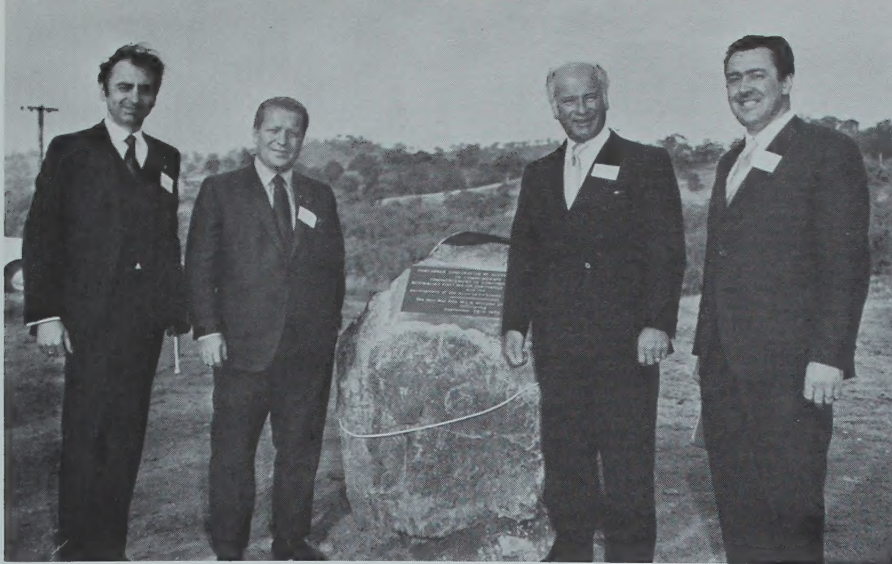
The "amphitheatre look" of a Canadian open pit asbestos mine is what Woodsreef will look like in years to come.

Later It Will Be Like This



Work under way on excavating the mill site at Woodsreef. On the left is a bulldozer with a Ripper attachment to remove the rock. Over four feet of rock had been removed when this photograph was taken.





A commemorative plaque on the site of the mill now under construction was unveiled by the New South Wales Minister of Mines, the Hon. Wal Fife. Standing alongside the plaque after the unveiling ceremony are four Canadians who were present. Left to right, Mr. W. Zyla, First Secretary, Canadian Trade Commission, Sydney; Mr. J. F. McOuat, Vice President, Watts, Griffis & McOuat Limited, geological consultants to Pacific Asbestos; Mr. R. H. Bullied, President, Pacific Asbestos; and Mr. H. Robinson, President, Robinson, Perrin and Associates Ltd., Project Managers for Pacific Asbestos.



Following the sod-turning ceremony for the new mill, Pacific Asbestos President, Russel H. Bullied, points out some of the features of a length of 12 inch drill core taken from the site, to the Honourable Wal Fife, Minister of Mines for New South Wales, and a group of senior officials from Marubeni-lida Co. Ltd. of Japan. Marubeni has signed a letter of intent to purchase 200,000 short tons of asbestos from Woodsreef over a 5 year period. Left to right are Mr. S. Ishii, Senior Managing Director, Mr. G. Maekawa, the Honourable Wal Fife, Mr. Bullied, Mr. H. Taguchi, Manager General Merchandise Dept., and Mr. H. Yamaji.

The first reinforcing steel is being placed in position at the bottom of the water supply pump house for the new mill alongside Ironbark Creek.

Despite the hot dry atmosphere at certain times of the year in Australia, Ironbark Creek, which runs alongside the Woodsreef site, has never run dry. Excavations for the water supply pump house and pipeline are shown being made alongside the Creek.



SOME FACTS ABOUT ASBESTOS

Asbestos is now being used in over 3,000 different ways, many uses having been discovered in recent decades with modern building techniques.

Among the latest developments is its use in the space capsules of lunar rockets, due to the resistance to fire, heat, friction and corrosion.

Another striking use is its combination with lead to form vibration cushions in a West Berlin metal and glass skyscraper.

There are three basic types of asbestos — Chrysotile, Crocidolite and Amosite. Chrysotile is the most common, accounting for over 90% of world production and is graded in seven groups, according to length of the fibre: group 1 fibre is a very long spinning fibre, while group 7 is a very short fibre. Crocidolite is a fine, resilient fibre of a blue colour mined primarily in South Africa. This type accounts for about 3.5% of world usage. Amosite, is mined only in South Africa, and this type of fibre, which is more acid and heat resistant than the two former groups, accounts for about 2% of the world market.

Fibres of Chrysotile asbestos are as fine as silk, yet as strong as steel. Even a blow-torch will not burn through the fibres.

In the early part of this century the major demand was for long fibres for spinning into non-combustible materials for curtains and fire-fighting suits.

Today this type of fibre accounts for only 3% of world consumption.

About 70% of all types of asbestos is now used for the production of building materials and asbestos cement pipe.

Chrysotile asbestos in groups 4, 5, 6 and 7 show signs of being the major source of growth for the industry.

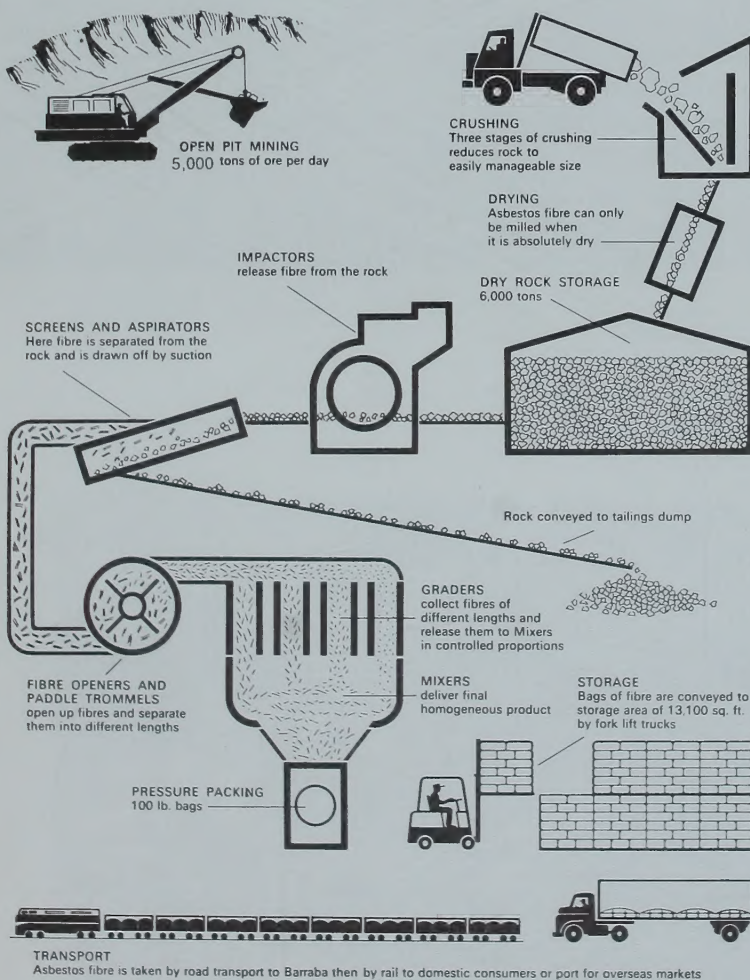
In these groups it is anticipated that demand from Japan alone will rise by 70% in the next six years.

The largest source of Chrysotile asbestos in the world is Russia, which has an estimated production in 1970 of 2,420,000 tons. However, this is expected to meet little more than domestic needs.

Canada is the largest supplier in the Free World, with 65% of the Free World's production. About 95% of Canadian production is exported.

Other countries in order of production capacity are: South Africa, Rhodesia, United States, Communist China, Italy, Swaziland and Cyprus.

Current world consumption of Chrysotile asbestos is about 4 million tons a year. This figure is rising at a rate of 5% per year. It has been estimated that world demand could exceed production by 1974 according to a survey produced by Burns Bros. & Denton. This growth in demand of 200,000 tons a year could only be met by the opening of three mines the size of Woodsreef each year.



The Diagram at left shows how the Woodsreef fibre will be mined and milled.

AUDITORS' REPORT

To the Shareholders
Pacific Asbestos Limited

We have examined the consolidated balance sheet of Pacific Asbestos Limited as at May 31, 1970 and the consolidated statements of administrative expenses and deficit, deferred exploration and development expenditures and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances. We have relied on the reports of other auditors who have examined the financial statements of subsidiaries.

In our opinion these financial statements present fairly the financial position of the companies as at May 31, 1970 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied, except for the change in accounting for certain general and administrative expenses as described in Note 2 to the financial statements, on a basis consistent with that of the preceding year.

Calgary, Alberta
August 6, 1970.

Riddell, Stead & Co.

PACIFIC ASBESTOS LIMITED

Consolidated Balance Sheet as at May 31, 1970

ASSETS

	1970	1969 (Note 2)
CURRENT ASSETS		
Cash	\$ 8,319	\$ 348,941
Accounts receivable	2,509	5,919
Prepayments and deposits	7,814	10,471
	18,642	365,331
MINING PROPERTIES AND RELATED EXPENDITURES (Notes 1 and 2) — Schedule	2,319,413	1,845,914
OTHER ASSETS		
Furniture and fixtures, less accumulated depreciation	34,426	12,451
Automotive equipment, less accumulated depreciation	10,049	12,089
Incorporation expense	5,959	6,146
Expenses of underwriting in progress (Note 7)	165,172	—
Exchange adjustment account	—	5,945
	215,606	36,631
	\$2,553,661	\$2,247,876

Signed on behalf of the Board:

R. W. MACAULAY
Director

R. H. BULLIED
Director

LIABILITIES

	1970	1969 (Note 2)
CURRENT LIABILITIES		
Bank indebtedness	\$ 21,705	\$ —
Accounts payable and accrued charges	295,336	95,906
Amount due on share acquisition	—	81,553
Loans payable (Note 3)	223,451	—
	540,492	177,459
CONTINGENT LIABILITIES (Note 4)		
SHAREHOLDERS' EQUITY		
CAPITAL STOCK (Note 5)		
Authorized 7,500,000 shares of no par value		
Issued 4,693,727 shares	4,452,444	4,430,444
CONTRIBUTED SURPLUS	190,790	190,790
	4,643,234	4,621,234
DEFICIT	(2,630,065)	(2,550,817)
	2,013,169	2,070,417
	\$2,553,661	\$2,247,876

The accompanying notes are an integral part of this financial statement.

PACIFIC ASBESTOS LIMITED

Consolidated Statement of Administrative Expenses and Deficit for the year ended May 31, 1970

	1970	1969 (Note 2)
ADMINISTRATIVE EXPENSES		
Accounting and secretarial fees	\$ 10,440	\$ 5,467
Legal and audit	30,570	33,059
Public relations	10,190	9,821
Promotion and entertainment	2,117	3,976
Travel	11,096	5,015
Salaries and wages	5,781	16,156
Registrar, transfer agent and other fees	10,215	32,078
Reports to shareholders and public	9,225	9,707
Office expense	10,039	8,223
Taxes and licenses	213	1,627
Other	202	8,193
Depreciation	530	135
Loss on sale of subsidiary	5,785	—
Loss on sale of fixed assets	—	1,313
	107,403	134,770
Administrative expenses deferred (Note 2)	6,000	6,000
	101,403	128,770
INTEREST INCOME (net)	1,112	8,734
	100,291	120,036
DEFICIT AT BEGINNING OF YEAR	2,550,817	2,493,057
Reallocation of prior years' administrative expenses (Note 2)	—	(62,276)
Recovery of losses of Mareeba Mining and Exploration Pty. Ltd. since date of acquisition, on sale of company	(21,043)	—
DEFICIT AT END OF YEAR	\$2,630,065	\$2,550,817

The accompanying notes are an integral part of this financial statement.

Consolidated Statement of Deferred Exploration and Development Expenditures for the year ended May 31, 1970

	1970	1969 (Note 2)
Drilling	\$ 5,594	\$ 340,360
Geological, mapping and engineering	364,204	204,667
Travel	31,528	12,424
Wages	35,707	52,771
Lease expense	4,259	11,273
Equipment operating expense	6,962	12,370
Cartage and freight	440	1,398
Road, site and clearing	1,382	2,267
Other	9,232	6,590
	459,308	644,120
Subsidies received	—	147,444
	459,308	496,676
GENERAL AND ADMINISTRATIVE	72,992	123,023
	532,300	619,699
BALANCE AT BEGINNING OF YEAR	1,806,746	1,104,485
Reallocation of prior years' administrative expenses (Note 2)	—	82,562
Amount applicable to Mareeba Mining and Exploration Pty. Ltd. sold during the year.	(354,852)	—
BALANCE AT END OF YEAR	\$1,984,194	\$1,806,746
SUMMARY		
Dover properties	\$ 252,146	\$ 250,315
Yulgilbar properties	52,504	49,330
Chrysotile properties	1,679,544	1,152,249
Mareeba properties	—	354,852
	\$1,984,194	\$1,806,746

Consolidated Statement of Source and Application of Funds for the year ended May 31, 1970

SOURCE OF FUNDS		
Issue of shares (Note 5)	\$ 22,000	\$1,565,081
Proceeds on sale of Mareeba Mining and Exploration Pty. Ltd.	84,000	—
	106,000	1,565,081
APPLICATION OF FUNDS		
Loss for the year, less non-cash charges	93,976	118,588
Mining properties and related expenditures	532,300	701,116
Mine buildings	1,200	—
Other assets, net of disposals	16,325	31,502
Advances to Mareeba Mining and Exploration Pty. Ltd.	6,749	—
Expenses of underwriting in progress	165,172	—
Acquisition of the net assets of Castle Tin Mines Limited	—	532,598
	(815,722)	1,383,804
INCREASE (DECREASE) IN WORKING CAPITAL	(709,722)	181,277
Working capital at beginning of year	187,872	6,595
WORKING CAPITAL (DEFICIENCY) AT END OF YEAR	\$ (521,850)	\$ 187,872

The accompanying notes are an integral part of this financial statement.

PACIFIC ASBESTOS LIMITED

Consolidated Schedule of Mining Properties and Related Expenditures as at May 31, 1970

	Area	
Dover Properties, Queensland, Australia		
Mining properties		
4 Mineral lease applications acquired for cash including legal costs of \$3,888	947.5 acres	\$ 63,888
1 Mineral lease application acquired by staking	312.5 "	96
	1,260 acres	63,984
Exploration and development expenditures		252,146
		\$ 316,130
Yulgilbar Properties, New South Wales, Australia		
Mining properties		
7 Mining leases (over private land) acquired for cash including legal costs of \$394	198 acres	\$ 2,793
3 Mining lease applications (over private land)	52 "	
1 Special lease application (over Crown land)	849 "	
21 Authorities to enter	18,191 "	
19 Applications for authorities to enter	17,013 "	
The above applications and authorities are held over parts of the area originally covered by mineral exploration license No. 30 and are recorded at the cost of acquisition of the original applications which were subsequently withdrawn when M.E.L. No. 30 was granted		
	36,303 acres	2,793
Exploration and development expenditures		52,504
		\$ 55,297
Chrysotile Properties, New South Wales, Australia		
Mining properties		
10 Mining leases over Crown land	294 acres	
3 Special leases over Crown land	336 "	
2 Mining leases over private land	125 "	
1 Special lease over private land	82 "	
9 Mining lease applications over Crown land	1,437 "	
11 Mining lease applications over private land	1,122 "	
3 Dredging lease applications	135 "	
3 Authorities to enter	8 "	
1 Mining purpose lease application over private land	12 "	
	3,551 acres	\$ 260,966
Exploration and development expenditures		1,679,544
Mine buildings		7,476
		\$1,947,986
SUMMARY		
Dover properties		\$ 316,130
Yulgilbar properties		55,297
Chrysotile properties		1,947,986
		\$2,319,413

PACIFIC ASBESTOS LIMITED

Notes to Consolidated Financial Statements as at May 31, 1970

NOTE 1 PRINCIPLES OF CONSOLIDATION

The accounts of the Australian subsidiaries, Chrysotile Corporation of Australia Pty. Limited (Chrysotile) (changed from Southern Cross Asbestos Pty. Limited formerly White Asbestos (Mining) Pty. Limited), Yulgilbar Exploration Limited (Yulgilbar) (formerly Woodsreef Asbestos Company Limited), Woodsreef Mines Limited (Woodsreef) and the Canadian subsidiary, Dover Tin Mines Limited, together with its Australian subsidiary, Dover Tin Mines Pty. Limited, have been consolidated with those of Pacific Asbestos Limited. The accounts of the Australian subsidiaries have been converted to Canadian dollars at the rate of \$1.20 Canadian to the Australian dollar.

The excess cost of subsidiaries over book value of assets in the subsidiaries has been allocated to mineral leases.

NOTE 2 CHANGE IN ACCOUNTING POLICY

During the year the company has, with retroactive effect, changed its policies with respect to the accounting for general and administrative expenses which are applicable to the proven Australian mining properties held by Chrysotile. These expenses, which had previously been charged to deficit, are now included under the caption "mining properties and related expenditures".

This change reduces the current charge to deficit by \$72,992 (\$123,023 in 1969) from what it would otherwise have been and results in a reduction of \$62,276 of the deficit carried forward from years prior to 1969. In addition, that portion of the excess cost of the initial investment in Chrysotile which relates to general and administrative expenses (\$20,286) has been reclassified as deferred exploration and development expenditures.

The comparative figures have been restated to reflect this change.

NOTE 3 NOTES PAYABLE

9% note payable, due July 31, 1970	\$100,000
Demand note payable (currently 9¾%)	123,451
	<u>\$223,451</u>

The 9% note payable, is, prior to September 1, 1970, convertible into 61,107 shares of the company.

The demand note payable provides for interest at a rate ¼% higher than the rate the lender is required to pay on its bank borrowings.

NOTE 4 CONTINGENT LIABILITIES

- (a) There is a contingent liability in respect of mining subsidies of \$303,344 received from the Department of Mines of Australia. Such subsidies are repayable if and when production is commenced or at such time as the company has so improved its monetary position as to be able to make repayment.
- (b) Pursuant to an underwriting agreement dated October 2, 1968 relating to a rights offering, the company appointed the underwriter its exclusive financial agent for any future financing with respect to its Australian asbestos property. In the event the company arranges financing without the assistance of the underwriter, the agreement provides for a payment of a fee of \$200,000 [Note 7(b)].

NOTE 5 CAPITAL STOCK

During the year ended May 31, 1970, the company issued 10,000 shares upon the exercise of an option by an officer and director for a cash consideration of \$22,000.

The company has reserved to May 31, 1970, 125,000 shares for issue under the following options:

— to officers and directors of the company, exercisable over the four years ending August 13, 1973 at a price of \$2.20 a share	50,000
— to the underwriters (as partial consideration for a rights offering) exercisable to November 23, 1973 at a price of \$2.25 a share	75,000
	<u>125,000</u>

By resolution of the directors dated May 19, 1970, the company amended its authorized share capital by increasing the maximum price or consideration for which 7,500,000 shares may be issued from \$7,500,000 to \$15,000,000.

Reference is made to Note 7, subsequent events.

NOTE 6 EXECUTIVE REMUNERATION

During the year the company paid \$28,903 remuneration to directors in their positions as directors and officers of the company.

NOTE 7 SUBSEQUENT EVENTS

- (a) Acquisition of Bowlake Nickel & Gold Pty. Limited and Reorganization of Australian subsidiaries:

On May 19, 1970, the shareholders of the company approved, subject to approval by regulatory authorities and completion of the Australian underwriting (see Part (c) below), the following:

- 1) The purchase by the company of all the outstanding shares of Bowlake Nickel & Gold Pty. Limited (Bowlake) plus an advance account (\$335,235) due by Bowlake to the vendor for a total consideration of 1,000,000 shares of the company.
- 2) The sale by the company to Woodsreef, an Australian subsidiary, of:
 - i) All the outstanding shares of Bowlake and the advance due to the company by Bowlake acquired under the transaction described above,
 - ii) All the outstanding shares of Yulgilbar and an advance account (\$226,572) due to the company from Yulgilbar. (Included in the assets of Yulgilbar are one-half of the outstanding shares of Chrysotile), and
 - iii) The remaining one-half of the outstanding shares of Chrysotile and an advance account (\$1,420,597) due to the company from Chrysotilefor a total consideration of 90,999,960 shares of Woodsreef. The company has agreed not to sell or to seek "official quotation" (qualify the shares for trading and thus obtain quotation for the shares on the various Australian Stock Exchanges) for a minimum of three years following the time when official quotation is granted to the shares of Woodsreef sold by the Australian underwriting (see Part (c) below).

- (b) Commitment to Underwriter of Rights Offering

Subsequent to May 31, 1970, the company arranged further financing without the assistance of the underwriter referred to in Note 4(b). The company and the underwriter have agreed to settle the obligation so incurred as follows:

- (a) The underwriter will exercise its option to purchase 75,000 shares of the company at a price of \$2.25 a share, paying the company \$168,750 (Note 5).
- (b) The company will, contemporaneously, pay \$168,750 to the underwriter in full settlement of the obligation.
- (c) Australian Financing
Subsequent to May 31, 1970, Woodsreef sold, by public subscription in Australia, 68,000,000 shares of its capital stock for a total consideration, before underwriting expenses, of \$17,000,000 Australian (\$20,4000,000 Cdn.).
- (d) Acquisition of Additional Woodsreef Mines Limited Shares

Subsequent to May 31, 1970, the company subscribed for additional shares of Woodsreef offered by that company under a public financing (see Part (c) above).

The acquisitions were financed by various short-term borrowings. As a condition of certain of the borrowings, the company has covenanted to cause to be transferred, as a bonus, to the lenders a portion of the Woodsreef shares held. These bonus shares are required to be transferred within thirty days of the obtainment of official quotation of any of the shares so purchased, of the obtainment of an exemption to allow the company to transfer or assign Woodsreef shares or in any event by August, 1971.

The obligations incurred by the company, the shares of Woodsreef acquired and the number of shares required to be transferred as a bonus are summarized as follows:

	Total Amount Borrowed	Number of Woodsreef Shares Purchased	Number of Woodsreef Shares to be Transferred to the Lenders as a Bonus
10% Loan payable September 30, 1970* (4,300,000 Swiss francs), secured by all Woodsreef shares purchased from proceeds and convertible into Woodsreef shares at \$.25 Australian per share	\$1,034,000	3,584,000	500,000
10% Loans payable January 1971 convertible to October 29, 1970 into shares of the company at \$1.75 per share	1,257,000	4,350,000	3,262,500
10% Loan payable April 30, 1971 secured by the allotment and reservation of 400,000 shares of the company and the personal guarantee of certain shareholders and convertible to November 30, 1970 into shares of the company at \$1.75 per share (see also Part (e) below)	500,000	1,742,244	—
	100,000	343,472	—
9% Bank loan payable April 24, 1971 guaranteed by certain shareholders	\$2,891,000	10,019,716	3,762,500

*May be extended, at the option of the company, to December 31, 1970 upon transfer of an additional bonus of 250,000 shares of Woodsreef.

In consideration of the vendor of the Bowlake shares, who received 1,000,000 shares of the company in payment (see Part (a) (1) above), agreeing to the company incurring the additional debt outlined above, the company has agreed to a further transfer of 1,000,000 shares of Woodsreef to the vendor. These Woodsreef shares are to be delivered within thirty days of the obtainment of official quotation of the vendor shares received by the company or, in any event, on July 29, 1973.

(e) Purchase of Canadian Mineral Permit

Contemporaneously with the borrowing of \$500,000 (see Part (d) above) used to purchase 1,742,244 shares of Woodsreef, the company purchased from the lender an interest in a Canadian mineral permit. The consideration paid for the permit was 1,300,000 Woodsreef shares which the company agreed it will cause to be transferred to the lender on or before September 28, 1971.

FOR: PACIFIC ASBESTOS LIMITED
REFERENCE: Scott-Atkinson, Only, International Limited
20 Maitland Street, Toronto 5, Ontario
CONTACT: David Scott-Atkinson
Telephone: 964-7015 or 822-1077
SUBJECT: PACIFIC ASBESTOS ANNUAL REPORT

TORONTO - November 16, 1970 - Enclosed is the Annual Report
for 1970 of Pacific Asbestos Limited.

